

**MODERNIZING FINANCIAL
MANAGEMENT FOR
HUNGARIAN LOCAL
GOVERNMENTS**

**FINAL YEAR SEMINAR:
OCTOBER 7-8, 1998**

Prepared for

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MODERNIZING FINANCIAL MANAGEMENT FOR HUNGARIAN LOCAL GOVERNMENTS

Final Year Seminar: October 7-8, 1998

This report briefly describes the October seminar on Modernizing Financial Management for Hungarian Local Governments. The program aims at training Hungarian local government finance officers to improve budgeting and financial management within their cities. This seminar was the second seminar of the third years' program, which consists of five seminars from June 1998-March 1999.

The agenda, list of participants, and course material for the seminar are included in Annex A. Seventeen local governments attended the October seminar (Table 1), nine of which have participated in the previous year(s) program. Thus there are participants from eight new cities in the third year, and seven cities have sent three or more participants to the seminar.

During the third year of the Modernizing Financial Management for Hungarian Local Governments program, the US Agency for International Development (USAID) is also sponsoring a Municipal Finance Consultant Training Program to train consultants in municipal budgeting and financial reform services. The program combines theory and practice to prepare the Hungarian consultants' to address the challenges of the rapidly changing local government market. This is a nine month interactive training program that runs parallel to the municipal budgeting seminar. In addition to training at the municipal budgeting seminar, the consultants will receive specialized training in financial software packages and western style marketing and consulting techniques. The initial consultant training seminar was held on October 6-8, 1998 with 19 consultants participating.

OCTOBER 7, 1998

After the registration Ms. Andrea Tönk_, Metropolitan Research Institute (MRI) welcomed the participants, and briefly described the program for the next two days. She was followed by Ms. Katalin Zsámboki, MRI, explained the new consultant training program component to the municipal budgeting seminar participants. As part of the Municipal Financial Consultant Training Program curriculum, the consultants will partner with cities to perform a long-term consulting assignment. As many of the local government finance officers have attended the previous year(s) program and had experience implementing budgeting reforms, Ms. Zsámboki highlighted the potential benefits to municipalities in working with the consultants in a long-term project. Ms. Zsámboki concluded that she would liaison with the municipalities and consultants to identify common interests and form partnerships.

Introduction to Sector Analysis and Program Design

The first presentation was given by Mr. József Hegedüs, MRI, to introduce sector analysis and program design. In developing a methodology to undertake a sector analysis, Mr. Hegedüs emphasized the importance of financial managers' understanding sector specific issues, to ensure a useful analysis and interpretation of the results. Mr. Hegedüs suggested that participants start by investigating the legal background and regulatory factors relevant to the given sector, then analyze dynamics, financial conditions, capital requirements, and professional qualifications on both the demand and supply side. After completing a Strength Weaknesses Opportunity and Threats (SWOT) analysis and undertaking forecasting of trends relevant to the local sector, consideration of alternative financing and service provision options is useful. One critical challenge facing financial managers is determining the appropriate depth of the sector analyses as either extreme could have a negative impact on the development of the program budget. Working together, the financial manager and sector specialists should define sector strategies that are consistent with the city's overall strategic plan.

Exercise on Sector Analysis

After the presentation the participants were divided into three groups (education, social and commercial) to perform a sector analysis. The education sector group was moderated by Mrs. Kürthy; social sector group moderated by Mrs. Krajsóczki; and communal sector group moderated by Mrs. Mészáros J. Regina. All three moderators are Hungarian local trainers for the program and head of the finance department in their respective cities.

Following the sector analysis structure outlined by Mr. Hegedüs, the participants were able to explore the differences of each sector in legal sources, supply-demand analysis, financial analysis, cost structure, and special factors impacting operation and capital demand in Hungary. After a short break the exercise was followed by a panel discussion about the results of the sector analysis.

Fiscal Indicators

After lunch, Mr. Philip Rosenberg, consultant to The Urban Institute (UI), gave a presentation on the role of indicators in the program budget and explained how these indicators can help financial officers understand the municipalities' fiscal situation. To accurately identify the indicators' trends, Mr. Rosenberg suggested using a summary of the operating expenditures and the balance sheet. In a short exercise, Mr. Rosenberg demonstrated how fiscal indicators can be used to determine municipal productivity, and different financial management practices that can be used by financial officers to achieve

economic vitality.

Building on Mr. Rosenberg's presentation, Mr. Robert Kovács, MRI went on to demonstrate the use of indicators in practice. Using three Hungarian cities as examples, Mr. Kovács worked with the local government officials to compare the financial situation based on dynamic and static indicators, absolute figures and indexes. Afterwards, Mr. Kovács discussed the advantages and disadvantages of fiscal indicators.

To conclude the exercise, Ms. Andrea Tönk_ summarized the topics covered that day.

OCTOBER 8, 1998

The second day of the seminar started with a review of homework submissions. Following Ms. Katalin Pallai's (Hungarian local government trainer) presentation at the previous seminar-June 1998, participants were given an assignment of writing a strategic plan for their respective cities. Using examples from the homework submissions, Ms. Pallai made a short presentation to highlight the important concepts of strategic planning. The city of Ózd was commended for not only identifying city objectives, but also developing a plan to achieve those objectives.

Exercise on Fiscal Indicators

After the homework review, participants divided into four sector groups to work on a sector specific fiscal indicator exercise. The four sectors were education, social, communal and financial. The financial group was included for financial managers. The groups were provided with financial data of a hypothetical city and asked to make a short analysis of the financial situation of the community. They had to choose indicators, or create new ones that best described the financial situation of the city, compute them and represent the most important ones visually.

The social sector group examined the fiscal and non fiscal indicators of the nursing and meals service to the elderly. They agreed that the indicators quantified the community's problems. The group concluded that program goals should be defined first in order to develop the most informative indicators.

The goal of the communal sector exercise was to demonstrate how they can use indicators to define the user fees of solid waste collection. The group identified three indicators: labor time invested; weight or amount of garbage collection; and administrative cost.

The education sector group compared the subsidy of three educational institutions. The comparison revealed that the local government subsidy depended on three factors: the number of the students and the condition and size of the building. The number of employees and the average age also has an impact on the required subsidy.

The financial sector group analyzed the budget of a hypothetical city. On the basis of the given numbers, the indicators identified some negative trends. The group decided that there are problems with the city's financial management and developed some potential resolutions to these problems.

Developing A Work Plan

The last presentation at the seminar was on work plans given by Mrs. Krajsóczki. First she defined the main elements of the work plan, and the purpose and potential results one can achieve from a work plan. In developing a work plan, Mrs. Krajsóczki underlined the importance of knowing your decision making authority; the important people who will review, contribute to, or approve your work plan; and the resources you will have to execute and accomplish the objectives set forth in the work plan. At the end of her presentation Mrs. Krajsóczki gave several suggestions about successfully creating a work plan in the context of a local government:

- ◆ Strategic collaboration
- ◆ Setting deadlines
- ◆ Developing a system to organize data collection
- ◆ Continuing to revise the work plan to reflect the changing local government environment

Homework

During the sector indicators exercise, the moderators handed out a homework sheet to the participants which required them to make a sector analysis based on the information on the given sheets. During the sector break-outs, the trainers also discussed how to use the examples as a basis for doing the homework.

Table 1
List of Cities Participating in the Final Year (1998-1999) Seminars on Modernizing Financial Management for Hungarian Local Governments

Number	Cities	Population	June 3-4, 1998	October 7-8, 1998
1.	Balassagyarmat	17,944	—	—
2.	Csongrád	19,112	—	—
3.	Győr	127,294	—	—
4.	Gyula	33,317	—	—
5.	Hajdúszoboszló	23,387	—	—
6.	Komárom	19,569	—	—
7.	Mezőcsát	6,586	—	—
8.	Mindszent	7,450	—	—
9.	Nagykanizsa	53,353	—	—
10.	Orosháza	34,600	—	—
11.	Ózd	41,075	—	—
12.	Püspökladány	17,000	—	—
13.	Ruzsa	2,880	—	—
14.	Szegvár	5,285	—	—
15.	Székesfehérvár	107,181	—	—
16.	Szentes	33,000	—	—
17.	Szolnok	81,500	—	—
18.	Tiszaújváros	17,890	—	—
19.	Vác	33,694	—	—

ANNEX A